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MAY 11 2001

DIVISION OF
OIL, GAS AND MINING

M/045/022

May 11, 2001

Mary Ann Wright, Associate Director of Mining
State of Utah
Department of Natural Resources
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
P.O. Box 145801
Salt Lake City, Utah 84114-5801

Re: Magcorp's Objection to Any Increase in the Reclamation Surety regarding Knolls
Solar Pond Facility, M/045/022, Tooele County, Utah

Dear Ms. Wright:

This letter is written in response to your letter to Lee Brown dated January 25, 2001, and more specifically, in response to the request from the Bureau of Land Management (BLM) to increase the reclamation surety amount held for the Magcorp Knolls facility. Magcorp strongly opposes any increase in the reclamation surety, and disputes whether the BLM has the authority to unilaterally alter the original reclamation plan that was agreed to when the permits were issued.

Rather than spending the time to argue whether the BLM has the right to unilaterally alter the prior agreement, Magcorp will focus this response on the specific inaccuracies set forth in the reclamation cost estimate prepared by the BLM. However, by doing this Magcorp specifically retains the right to contest any alteration or increase of the scope of the original reclamation bond, and Magcorp does not waive its' contention that the parameters of reclamation for the Knolls Solar Ponds were established in 1987, before the outset of the project. Such requirements were established with full public scrutiny, including direct input from the BLM. The BLM cannot now unilaterally change the scope of the reclamation and increase the cost to Magcorp. Under the original reclamation requirements, the only things that were required at the termination of the operation were:

- (A) All equipment and structures would be removed;
- (B) The inlet and feed canals would be filled;
- (C) The dikes would be breached to allow drainage;
- (D) The access roads not having approved post-operation uses would be reclaimed;
and
- (E) The interior dikes would be regarded.

Any change of the scope of the reclamation requirements at this late date, is patently unfair and without merit.

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General Overview of the BLM Reclamation Cost Estimate

The BLM backup documentation, the basis for the proposed increase of the reclamation bond, and the cost estimates, are grossly inaccurate and biased. Magcorp can only assume that given the magnitude of the discrepancies the BLM is yet again engaged in a meritless action, consistent with its' conduct in pursuing the baseless lawsuit involving alleged federal ownership of the minerals that were processed by Magcorp from the Knolls Solar Ponds. It is almost inconceivable that given the gross errors, the BLM engaged the appropriate professionals, with the proper experience, to offer such opinions.

The BLM proposal prescribes work to be done in unrealistic ways, with inefficient equipment, and a 10 percent contingency be added to each task. Then, on top of the 10 percent contingency, an 18 percent administrative fee is added to further escalate the cost. Then, rather than holding the administration cost estimated to the project without the contingency, as would be done in normal project development estimates, an additional 10.5 escalation is added for BLM oversight. All of these unjustified expenses serve to further increase the costs in an unrealistic way.

Canals and Ditches

The BLM admits that a detailed equipment survey was not conducted. Nevertheless, the BLM selected an extended boom-track backhoe, which is a terrible and inefficient choice. Adding a 50-foot boom would reduce the efficiency by a factor of at least five. Pushing the materials into the canal can be easily accomplished by use of a low ground pressure dozer working on top of the burrowed materials. This material has been in place for 15 years, it has dried and settled, and will lend itself to efficient work. The D7-LGP dozer sited elsewhere in the BLM proposal would be appropriate.

The BLM estimate also makes no allowance for material that has been slumped, settled, or eroded back into the canals. The BLM used pre-construction documents as the basis of their analysis, and the BLM applies the same cost constraints to the entire canal. This is clearly unwarranted as the materials and locations vary with different approaches.

Exterior Dikes

The BLM calculation of a D7-LGP dozer performance has been grossly underestimated, and the BLM has grossly overestimated the material to be moved to achieve the desired 4:1 slope of existing exterior dikes. It should also be noted that the 4:1 slop requirement was not part of the original reclamation proposal. Moreover, the BLM's calculation wrongly assumes that 100% of the material will be moved, when realistically only about 25% of the material will have to be moved. In addition, the BLM grossly misses the mean distances that material will be moved, assuming an average yard will be moved 200 feet, when in fact 50 feet is a more realistic estimate. The BLM also wrongly assumes that the material to be moved is 50% rock, when in fact the dikes were constructed of dirt with a gravel cap for a road surface. The BLM further estimates that the dozer work will be done on flat ground, which ignores the fact that the work will actually be done from the top of the dikes pushing down. This results in an 80% increase in dozer efficiency.

The BLM also uses an old Caterpillar performance book to evaluate appropriate dozers. The 1993 Caterpillar performance book shows that a D8N-LGP dozer actually has ground pressure of 8.46 lbs/in². This is well within the 10 PSI constraint applied by the BLM. It should also be noted that the 10 PSI constraint itself is erroneous because the material that is to be worked is not the native soil, rather the material is granular fill that was hauled in and compacted. The material has settled for 15 years, and can most certainly withstand the ground pressure of a larger unit. By making all of the exaggerations listed in the dozer capacity estimate, the BLM has wrongly listed the earth moving cost of a dozer at \$1.24/yd³. The properly estimated cost of a D7-LGP dozer in these conditions would be about \$0.20/yd³. A Lager dozer (e.g. D8N) could likely operated for about \$0.14/yd³. This error in presentation of the facts causes the cost of this task to be inflated by a factor of six to nine times the actual cost.

The BLM also wrongly presumes that the work can only be done during six months of the year. However, during construction a substantial amount of dozer work was done during all months of the year. The estimate of 48.6 months, with its' attendant mobilizations and demobilizations over a four year period, is wholly unrealistic and unnecessary.

Interior Dikes

The BLM assumes that it is highly desirable to protect the salt in the 7A, 7B, 7C, and 7D ponds. This is erroneous. The salts are of mixed compositions that have little commercial potential. The salt is already contaminated with a substantial amount of dirt from dike erosion and blowing dirt. In addition, no splits were developed in the salt as it was laid down. This makes conventional salt harvesting techniques impossible.

Moreover, removal of the dikes was never an option set forth in the original reclamation program, and there is nothing in the approved plan that could be construed as requiring removal of the material. In addition, the removal method outlined in the BLM proposal is impossible. The salt floors are within two feet of the top of the dike. The salt matrix floors are saturated with brine and contain 50% by weight liquid brine. A scraper simply will not pick up material saturated to that extent.

Furthermore, the interior dikes eroded early in the project's life. The width of the existing dike will not allow pickup truck travel, let alone something of the dimensions of a self-elevating scraper as proposed. If removal were required, which it is not, a backhoe, dump-truck system might be considered. Moreover, the volume in the BLM estimate is off by a factor of at least four due to the prior erosion.

Road Reclamation

The need for road reclamation as described is questionable at best. Most of the roads that are not used have self re-vegetated with plants from the surrounding terrain. In addition, the cost estimate is grossly high, and to suggest ripping the road surface with a dozer is an unnecessary expense. A dozer is slow and not well suited for that kind of work. Usually an

agricultural tractor is sufficient. In fact, the tractor is the most common equipment for this kind of work. Alternatively, a road grader with ripping teeth would do the job much faster and more efficiently than a dozer.

It should be noted that the BLM cost estimate, which calculates to \$15,396/acre of reclamation, is highly exaggerated. In fact, this is more expensive than laying sod in Tooele County (\$10,900/acre). Moreover, the assessed value of land in the area is only \$100 - \$200/acre.

Furthermore, the road through the sand dunes is only a path at the north end. The shifting gypsum sands have already obliterated the North half of the road, and work there would be counter-productive to returning the land to its' natural state. Finally, the original reclamation agreement set forth that roads were to be left if they serve a useful approved purposes. If the road is to be left as Tooele County has requested, the main road would serve such an approved purpose. In addition, the "North" road provides the Air Force with alternative access to its' bombing range.

Surface Facilities

Tooele County has requested that the main shop and main road be left for its' governmental activities. In fact, Tooele County supplied written documentation to Magcorp confirming that it will accept the facilities, and assume liability. However, even if the facilities were required to be removed, no credit is given for salvage value. The tanks, piping, and steel would yield a substantial value. Many demolition jobs on this order have been done for the value of the salvage alone.

Survey Markers

Prior to the Knolls Solar Pond Project there were only a few survey points available. The markers were largely wooden stakes. There was a brass cap marker on the Northeast extreme of the project, which was likely destroyed by the removal of material by the Grassy Mountain landfill project after the completion of the Knolls Solar Pond construction, however, that possible destruction has never been verified. The exact number of markers that existed prior to the construction is not recorded but would be in the range of 10. Magcorp did most of the surveying that has been done in the area during the construction phase. As part of the initial construction, ten brass cap markers have already been installed.

BLM Oversight

The BLM proposal suggests that five years of oversight will be necessary to oversee reclamation. Additionally the BLM adds 20% profit. These numbers are entirely unrealistic.

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I trust that Magcorp has demonstrated that the BLM's proposal is grossly exaggerated, unrealistic, and patently unfair. However, I am still concerned with the statement in your January 25, 2001, letter that "the Minerals Program Technical Staff reviewed the bond estimate and concurs with its' methodology and content." The methodology and content of the BLM proposal are without merit, and it should be apparent that both the content and the methodology should be rejected. Magcorp personnel are ready to meet with the Minerals Program Technical Staff to review line-by-line the BLM proposal and to further demonstrate the over-inflated, unrealistic, and unworkable nature of the BLM proposal.

If you feel such a meeting would be helpful, please contact me, or my assistant, Stephanie Luttmer, to arrange a meeting.

Sincerely,



Tony J. Rudman
Counsel for Magcorp

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